

## United States : Dell Profits Up 52% On Strong Business Sales

197 words

24 May 2010

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**Dell**, which has struggled more than Hewlett-Packard and other rivals in weathering the economic recession, has reported a 52% jump in profits in the first fiscal quarter, as businesses ramped up spending on PCs.

The computer maker on Thursday reported that net income for the quarter ended April 30 rose to \$441 million, or 22 cents a share, from \$290 million, or 15 cents a share, the same period a year ago. Revenue increased 21% to \$14.9 billion from \$12.3 billion a year ago. **Dell's** results were ahead of Wall Street analysts polled by Thomson Reuters.

A key driver behind **Dell's** performance was a 38% increase in revenue from servers, storage and services sold to businesses. During the recession last year, companies delayed PC purchases, which hurt **Dell** more than HP and other competitors that managed to make up some of the shortfall with consumer sales.

This time around, however, **Dell** reported increased sales across all its customer segments, led by large enterprises, 25%; and government, 22%. Consumer sales were up 16% and revenue from small and medium-sized businesses rose 19%.

## United States : Dell Posts 1Q Results

248 words

22 May 2010

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Despite surging demand for PCs that fueled top-line growth, **Dell DELL** posted uninspiring first-quarter results as the firm failed to translate growth into profitability. There were pockets of impressive results, most notably for servers, but these were overshadowed by the mediocre results of **Dell's** PC business. With no catalysts on the horizon to quickly reduce **Dell's** dependency on PCs, we expect more of the same from **Dell** for the foreseeable future. We are leaving our fair value estimate unchanged.

Total revenue grew 21% year over year, to \$14.8 billion, led by a 47% jump in revenue the Servers and Networking segment. The Services division also delivered revenue growth of over 40% due to the Perot acquisition. In addition to sales

momentum, these segments both have attractive fundamentals and margins, but together they account for only 25% of sales. Therefore, the strong performances in these areas were overwhelmed by the mediocre results of **Dell's** commodity PC business that accounts for the majority of sales.

Firmwide gross margin of 16.9% and operating margin of 4.1% are disappointing results given the economic tailwinds and demonstrate a lack of operating leverage. The average selling prices for PCs stabilized relative to the dramatic drops in 2009. However, we attribute the deceleration in price declines to rising component costs, such as for memory. Without a way to differentiate its PCs, **Dell** effectively is a price-taker experiencing rising input costs.